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FOREIGN SERVICE DESPATCH

886 d. 10/3-1355

FROM : AMCONSULATE, KUWAIT

183
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 13, 1955
DATE

REF : CERP Kuwait and Kuwait Despatch No. 254 of March 23, 1954.

4 For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
	NEA-3	CCIR-2 REP-2 OLI-6 E-5 EHR-5
	3-21	LONDON-1 BEIRUT-1 COM-6 TR-3 FRB-2 FSA-10

SUBJECT: KUWAIT STATE FISCAL OPERATIONS IN 1954 AND ESTIMATES FOR 1955.

The following information on the fiscal operations of the Kuwait State has been supplied by an official of the Department of Finance. He has specifically requested that none of the figures be quoted publicly or in any way by which they might be referred to officials of Kuwait State.

STATISTICAL DATA (Ind.Rs.5/- equal approx. \$1.00)RECEIPTS.

<u>Local</u>	<u>1954 (Actual)</u>		<u>1955 (estimate)</u>	
	<u>Ind.Rupees.</u>	<u>Dollars.</u>	<u>Ind.Rupees.</u>	<u>Dollars.</u>
Customs	12,000,000*	2,400,000*	13,400,000	2,680,000
Port and Water)				
Distillation Plant.)	9,000,000*	1,800,000*	nil net revenue	
Law Courts)				
Public Security)	1,000,000*	200,000*	1,005,000	201,000
Police)				
* Consulate estimate				
<u>Exact total local receipts</u>	21,973,000	4,394,600	14,405,000	2,881,000
<u>Interest</u>				
All banks	1,500,000	300,000	1,500,000	300,000
Investment Board	8,937,000	1,787,400	13,400,000	2,680,000
<u>Total</u>	10,437,000	2,087,400	14,900,000	2,980,000

/ Oil Revenue.....

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RECEIPTS (continued)

	<u>1954 (actual)</u>		<u>1955 (estimate)</u>	
	<u>Ind. Rupees</u>	<u>Dollars</u>	<u>Ind. Rupees</u>	<u>Dollars</u>
<u>Oil Revenue</u>				
K.O.C. Income Tax - 1953.	774,572,000	154,914,400	804,000,000	160,800,000
K.O.C. Royalties for 4 quarters 1954	148,241,000	29,648,200	134,000,000	26,800,000
Aminoil Royalties	1,218,000 *	244,000 *	6,250,000	1,250,000
<u>Total Oil Revenues</u>	<u>924,031,000</u>	<u>184,806,600</u>	<u>944,250,000</u>	<u>188,850,000</u>

* This figure represents royalty payment for the quarter July - September, 1954 only. Prior to June 27, 1954, Aminoil made minimum royalty payments yearly in advance. Thus June 1953 to June 1954 period was paid in 1953. Payments are now made quarterly in arrears. Thus the next payment (September - December quarter) was not made until 1955.

<u>TOTAL RECEIPTS :</u>	956,441,000	191,288,600	973,555,000	194,711,000
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EXPENDITURES

	<u>1954 (actual)</u>		<u>1955 (estimate)</u>	
	<u>Ind. Rupees.</u>	<u>Dollars</u>	<u>Ind. Rupees</u>	<u>Dollars.</u>
<u>Ordinary</u>				
Ruler and family	6,098,000	1,219,600	**	**
Finance Dept.	1,831,000	366,200	1,775,000	355,000
Customs	2,135,000	427,000	3,531,000	706,200
Law Courts	1,272,000	254,400	1,124,000	224,800
Public Security	22,109,000	4,421,800	30,000,000 ***	6,000,000 ***
Police	8,405,000	1,681,000	11,947,000	2,389,400
Port	22,876,000	4,575,200	20,050,000	4,010,000
Education	33,431,000	6,686,200	51,700,000	10,340,000
Municipality	16,098,000	3,219,600	24,600,000	4,920,000

/Water Distillation....

* * Estimated are no longer made. "Some slack" is allowed in the new budget for this item.

*** This figure represents the Finance Department's guess only.

EXPENDITURES (continued)

	<u>1953 (actual)</u>		<u>1954 (estimate)</u>	
	<u>Ind. Rupees</u>	<u>Dollars</u>	<u>Ind. Rupees</u>	<u>Dollars</u>
Water Distillation	2,742,000	548,400	17,870,000 *	3,574,000 *
Electricity	18,436,000	3,687,200		
Works Development - recurring	7,376,000	1,475,200	5,000,000	1,000,000
Public Works Dept.	127,404,000	25,480,800	120,000,000 **	24,000,000 **
Public Health	26,460,000	5,292,000	50,200,000	10,040,000
Sundry Transfers	6,667,000	1,333,400	---	---
Dept. of Social Affairs (included in Miscellaneous below)			4,000,000	800,000
Religious Grants (AWQAF)	3,212,000	642,400	4,000,000	800,000
Miscellaneous	5,108,000	1,021,600	5,000,000	1,000,000
Unaccounted for	6,000,000	1,200,000	-	-
<u>Total Ordinary Expenditures</u>	317,660,000	63,532,000	350,797,000	70,159,400

* Water and Electricity operating costs combined as public utilities.

** This figure represents the Finance Department's guess only.

Capital

Development projects	165,545,000	33,109,000	200,000,000	40,000,000 ***
Port.	7,471,000	1,494,200		
Electricity and Capital Works.	-	-	13,460,000	2,692,000
Land purchases	88,141,000	17,628,200	80,000,000	16,000,000
Sundry Advances	1,185,000	237,000	-	-
Total Capital Expenditure	262,342,000	52,468,400	293,460,000	58,692,000

*** Includes port and water distillation expenditures.

<u>TOTAL EXPENDITURES</u>	580,002,000	116,000,400	644,257,000	128,851,400
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/ Excess of Income over Receipts.....

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EXCESS OF INCOME OVER RECEIPTS

	1954		1955	
	Ind. Rupees	Dollars	Ind. Rupees	Dollars.
Increase in investments	250,000,000	50,000,000		
Increase in bank balances	150,000,000	30,000,000		
Total Excess of income over expenditures.	400,000,000	80,000,000	330,000,000 (estimated)	66,000,000

COMMENTS:

Notes and comments contained in the financial report of last year (Kuwait Despatch No. 254, March 23, 1954) are applicable to the financial picture this year as well. The following additional explanatory comment may be of interest:

Revenue: The Department of Finance is using the figure of 72 million pounds sterling as a rough total of revenue to Kuwait State from all sources in 1955.

The American Independent Oil Company makes its royalty payments directly to the account of the Ruler of Kuwait at the National City Bank in New York. Although these payments are included in the State's accounts as revenue, in actual fact the money can only be drawn by the Ruler himself.

Expenditures: Late in 1954 the Department of Social Affairs was formed. No money was budgeted for this Department in 1954 and therefore its expenditures have been included in the miscellaneous item.


Harrison M. Symmes
American Consul

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FOREIGN SERVICE DESPATCH

FROM : AMERICAN CONSULATE, KUWAIT

195

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

May 1, 1956

DATE

REF : CERP Kuwait and Condes 183, March 13, 1955

4 For Dept. Use Only	ACTION	DEPT.
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SUBJECT: KUWAIT GOVERNMENT 1956 FISCAL OPERATIONS

GENERAL ANALYSIS

The refusal of the Ruler of Kuwait to release figures on the Government budget, generated mainly by the propensity of the ruling shaykhs serving as departmental heads to dip with impunity into the state's coffers, renders difficult a proper and precise accounting of the current budget. Furthermore informality in the handling of Government funds, accentuated by the belief that there is more than enough money to go around, and the absence of traditional accounting methods make expenditure estimates more academic than accurate. They do, however, provide an index to the expanding economy of Kuwait.

The breakdown of the 1956 budget, obtained on a confidential basis from the Political Agent, deviates from past budgets by lumping all expenditures under "Ordinary Expenditures", rather than offering a separate section headed "Capital Expenditures." This, according to a well-placed source, reflects ignorance on the part of the British financial advisors as to exactly what the Government has in mind for capital (i.e. development) expenditures. Shaykh Fahad al-Salim al-SUBAH, head of the Public Works Department and of the Development Board, holds a tight grip on development operations by virtue of running those organizations which have most to do with development activity, and he does not divulge sufficiently in advance for insertion into the budget the nature or extent of his anticipated development expenditures.

It appears from the budget that a number of capital expenditures have been absorbed in items listed under "Ordinary Expenditures" in the absence of submission of capital expenditure estimates from the departments concerned. The Economic Counselor at the Political Agency concurs in this assumption. This appears to apply to such items as "Electricity and Water Distillation", "Public Works Department", and "Land Purchases." Thus the figure of 645,311,000 rupees for total estimated expenditures in 1956 is only approximate and probably incomplete. On the bases of the traditional and unofficial ceiling for current expenditures and development projects of approximately two-thirds of Kuwait's total income, or one-third for each, expenditure of about 900 million rupees is theoretically permitted (total receipts being in the

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neighborhood of 1 billion 400 million rupees). It is not likely, however, that 1956 expenditures will reach 900 million rupees since major development projects presently underway will not require heavy financial outlays before 1957.

Total estimated revenues for 1956 as shown in the attached figures reach a new record for Kuwait of 99 million pounds sterling or 1,326,600,000 rupees. This is exclusive of Aminoil royalties, estimated at over 8 million rupees last year, which were paid directly to the First National City Bank of New York. The figure for 1956 estimated revenues shows an increase of approximately 29 million pounds sterling over last year's estimates after subtracting Aminoil royalties which showed up in 1955 budget estimates. The large rise in revenues is in part accounted for by an increase in oil production but is largely due to a new concession agreement signed in October, 1955 which calculates profits on the basis of the posted price rather than on long-term purchase contracts.

ANALYSIS OF EXPENDITURE ITEMS

Estimated expenditures for the Ruler and his family are less than 1955 payments, which were almost double 1954 payments. They tell only part of the story, however, of the subsidization of the ruling family. Members of the family derive the bulk of their income from the sale of land at exorbitant prices, to the ownership of which they often lay claim solely by virtue of their high positions; from large items such as palaces built with Government funds; and from commercial profits made possible by their powerful connections.

The increase in police expenditures reflects the Government's intention to double the size of the police force (Condes 85). A program of educational expansion in the form of construction of 14 new schools explains the 80 per cent increase in expenditures for the Educational Department. Construction of the new 500-bed Subah Hospital absorbs much of the increase in the anticipated outlay of funds for the Health Department.

Estimated ordinary expenditures for electricity and water distillation are about equal to total expenditures, ordinary and capital, for the same items in 1955. Since plans for construction of Power Station B and a third distillation plant are still in the formative stage, major capital outlays are not expected until 1957.

Funds allotted to the Public Works Department considerably in excess of 1955 payments are believed to indicate the absorption in that Department's budget of development project funds. While 1955 development project estimates showed a figure of 200 million rupees, actual payments were only 2 million rupees--a reflection on the relative lack of development activity last year. Development expenditures in 1956 are expected, however, to be considerably more than in the previous year--at least to the extent of the

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approximately 37 million rupees! difference between Public Works Department 1955 payments and 1956 estimates.

The tremendous increase in estimates for "Development, Recurring Expenditure" - from 5 million rupees for 1955 to 48 million for 1956 - reflects the high cost of maintenance on development projects. Much of this expense goes into heavy repair costs arising from poor quality construction materials compounded by inferior building conditions.

Insertion into the budget for the first time of the item "Civil Aviation" signifies the Kuwait Government's assumption of administration over the airport in June of this year in accordance with the new Civil Air Agreement (Condes 187). Formerly, civil aviation expenses had been borne by the British Government and receipts paid into the British Treasury.

"Land Purchases" is another capital expenditure item which appears to have been transferred to "Ordinary Expenditures." The 1956 estimate of 48 million rupees is less than one-third of 1955 payments, which suggests that the bulk of Government purchases of property inside the wall for conversion into municipal centers has been accomplished.

ANALYSIS OF REVENUE ITEMS

The Kuwait Oil Company income tax figure for 1955, which appears in the 1956 budget because it is paid in arrears, is 66½ million pounds sterling (equal to 891 million rupees), an increase of about 12 per cent over the tax payment for 1954. At the same time, estimated Kuwait royalty payments for 1956 are put at 30 million pounds sterling, an increase of about 200 per cent over the previous year, which raises total oil payments from KOC and affiliates to 96½ million sterling.

Three factors combined to raise the Government's estimated income from the Kuwait Oil Company to this high for the year: (a) an increase in production; (b) a rise in income taxes paid by KOC owners and off-takers under the October, 1955 agreements as the result of figuring profits on the posted rather than the selling price (Condes 56); and (c) a substantial increase in the royalty rate inaugurated by the October agreements.

In the absence of the basic concession documents which have not yet been made available to the Consulate despite repeated requests, it is not possible to state accurately how much of this over-all increase should be attributed to each of the factors mentioned. On the basis of information available from Agency officials and local oil men, the Consulate concludes that the income tax figure includes an amount representing increased production for the year, that the royalty estimate reflects in part an increase in the royalty rate, and that the rise in income taxes is probably distributed

Between

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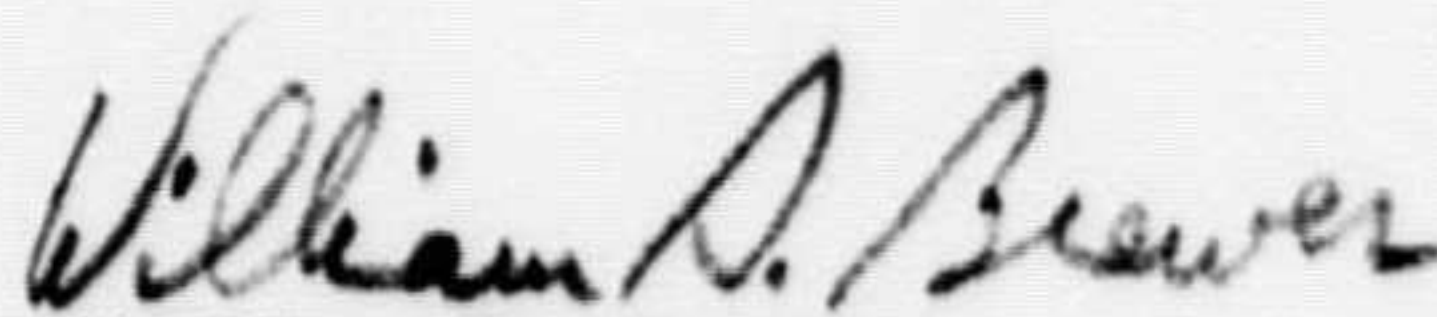
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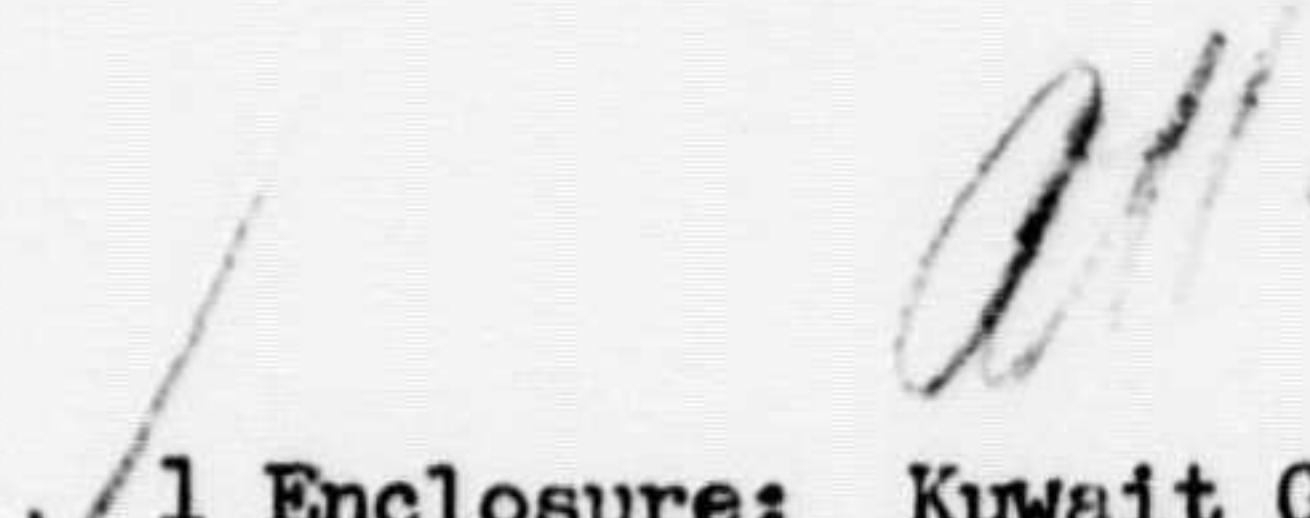
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between the two Finance Department entries. Much if not all of this income tax increase should have been paid by off-takers newly incorporated in Kuwait for the purpose (Condes 56), but since no mention is made of any payments by these concerns in the figures forwarded with this despatch, it is not possible to ascertain under what heading they have been incorporated.

Customs revenue estimates remain fairly constant, as do "Other Local Revenues", which include revenues from the port and water distillation plants, law courts, Public Security and Police. The item "Interest" does not include interest on Kuwait Government investments with the Investment Board. This interest is reinvested and no longer shows up on the budget. The item "Interest" refers to interest on Kuwait Government bank deposits.


William D. Brewer
American Consul


1 Enclosure: Kuwait Govt Accounts for Year
Ending Dec 31, 1955

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KUWAIT GOVERNMENT

Accounts for the year ended December 31, 1955

EXPENDITURES

DEPARTMENT	Estimates 1956 Rs.000	Payments 1955 Rs.000	Estimates 1955 Rs.000	Payments 1954 Rs.000
A. Ordinary Expenditure				
His Highness & Family	9,676	11,284	-	6,098
Finance Department	4,942	2,984	3,310	1,831
Law Courts	1,738	1,475	1,076	1,272
Customs Department	4,943	3,498	3,612	2,135
Police Department	26,167	11,818	11,947	8,405
Port Department	22,367	22,995	23,847	22,856
Education Department	91,000	51,680	51,155	33,431
Health Department	75,766	38,020	50,228	26,460
Municipality	20,000*	19,614	24,625	16,098
Social Affairs	6,147	2,247	4,919	12
Printing & Publishing	2,000*	1,111	-	34
Electricity & Water Distillation	52,420	23,425	20,743	21,178
Kuwait Water Supply	840	2,573	510	741
C.A.O. & Housing Department	5,813	3,514	-	-
High Executive Committee	219	128	288	37
Land Registration	624	337	-	-
Personnel Department	369	115	-	-
Accident Compensation	-	87	50	25
Pensions	-	140	-	37
Charitable grants	-	244	3,000	2,017
Rain relief	-	10,440	9,981	109
Losses on sugar written off	-	1,028	-	-
Public Works Department	175,000*	138,376	120,000	127,328
Public Security Department	42,000*	38,482	30,000	22,112
Awkaf Department	4,000*	3,456	4,000	3,212
Development, Recurring Expenditure	48,000*	17,607	5,000	7,322
Miscellaneous	270	881	2,813	1,368
Telephones & Telegraphs	1,000*	-	-	-
Civil Aviation	2,000*	-	-	-
Land Purchases	48,000*	-	-	-
Total Ordinary Expenditure	645,311	407,559	370,954	304,118

B. Capital

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	Estimates 1956 Rs.000	Payments 1955 Rs.000	Estimates 1955 Rs.000	Payments 1954 Rs.000
B. <u>Capital Expenditure</u>				
Development Projects	-	2,020	200,000	173,113
Electricity & Water Distillation	-	36,864	13,460	7,505
Purchase of Land & Properties	-	167,183	80,000	88,141
Port Department Equipment	-	554	1,300	7,471
Net Deposits on Letters of Credit	-	15,341	-	-
Sundry Advances net increase	-	1,079	-	724
Telegraph & Telephone System	-	1,489	-	-
Loan to Kuwait Airways	-	2,667	-	-
Total Capital Expenditure		227,197	294,760	276,954

RECEIPTS

Kuwait Oil Company Income Tax for 1955	£ 66½ million
Kuwait Oil Company Royalties for 1956	£ 30 million
<u>Local Revenues</u>	
Customs	£ 1 million
Others	£ 1 million
Interest	£ ½ million
	£ 99 million

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FROM : AMERICAN CONSULATE, KUWAIT

18

DESP. NO.

July 16, 1956

DATE

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : Condes 1, July 2, 1956

71 For Dept. Use Only	ACTION NEA-4 REC'D 7/24	DEPT. IN F O REF-2 RM/R-2 OLI-6 EUR-5 E-4 XCA-10 TR-3 FRB-2 CIA-7 USIA-10 COM-8 LONDON-1
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SUBJECT: RESIGNATION OF FINANCE DEPARTMENT CONTROLLER REFLECTS GROWING DISORGANIZATION IN ADMINISTRATION KUWAIT FINANCES

SUMMARY

After years of gradually dwindling authority, Lt. Col. Crichton, Controller of Finance, has submitted his resignation. Long disturbed by the growing disorder in the administration of Kuwait finances, Crichton reached his decision following recent transfers of authority from Finance to Public Works and other departments. While his departure will have no practical significance and the Agency is not disturbed by his decision, it constitutes formal recognition of the fact that British advisers here no longer exercise even pro forma control over the finances of the Shaykhdom. His resignation is also symptomatic of the mal-administration of Kuwaiti finances which has recently caused increasing local criticism.

On July 9, Lt. Col. G. C. L. Crichton, Controller of Finance, confirmed to the Consulate recurrent rumors that he has submitted his resignation, to take effect in November. Crichton, who came to Kuwait in 1951 after a lifetime spent in the Indian Political Service, has long been dissatisfied with the growing disorganization and mal-administration of the Shaykhdom's finances, but it had been assumed that he would remain until his six-year contract is concluded early next year. His reasons for submitting his resignation at this time reportedly include the following:

1. Although nominally President of the Finance Department, the Ruler now plays no role in its operations and has been reluctant to support Finance Department officials in the discharge of their functions. Certain of the Departments, notably Public Works and Public Security, have never submitted budget estimates to Finance (Condes 195, May 1, 1956) and accept no limitation on their expenditures except from the Ruler himself. The Director of Finance, Sayyid Ahmad Abd al-LATIF, is unable to withstand requests for funds from paramount shaykhs and has

not been

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not been encouraged to seek the Ruler's backing in dealing with such demands. The most blatant recent example of such requests, which has caused much adverse local comment, involves Shaykh Fahad al-Salim's demand for funds to meet the expenses of his global tour (Condes 1).

2. In view of the foregoing, the position of Controller has gradually been reduced to that of paymaster. Crichton formerly dealt directly with the Ruler whom he saw several times a month. In the past two years, however, he has been given to understand that His Highness did not wish to receive him, and whatever influence he may originally have enjoyed has disappeared. When informed of Crichton's desire to resign, the Ruler is said to have remarked: "Who will sign the checks?"
3. When Crichton first came to Kuwait the Ruler asked him to be responsible for all Government employees, but certain of these duties of the Finance Department have recently been transferred to other agencies on a de facto basis without protest from His Highness. In May, housing and administrative affairs were summarily removed from the jurisdiction of Finance at the behest of Shaykh Fahad al-Salim, President of P. W. D., and grouped under a new Department of Housing and Administrative Affairs headed by Abd al-Aziz al-BAHR, a P. W. D. employee, who is responsible to Shaykh Fahad. The post of Chief Administrative Officer, formerly held by Brigadier T. N. Smith, was abolished. Smith, who learned officially of these changes weeks after they had become common knowledge in the town, was given unspecified duties under Bahr, but departed on leave shortly thereafter and his future status is uncertain. Particularly since Smith was a direct subordinate and close friend of Crichton, the transfer of these functions from Finance and the cavalier manner in which they were carried out considerably annoyed the Controller.
4. Until recently, foreigners who were recruited by the State signed contracts prepared by the Finance Department. Finance established grades and salary rates for all Government employees, but these have been increasingly ignored by P. W. D. and other departments in the past six months. Asserting that the established grades and salaries do not permit him sufficient freedom in hiring foreign experts and technicians, Shaykh Fahad recently arrogated to himself the right to make all contracts and all salary payments involving P. W. D. employees. British and other foreign staff of P. W. D. now are paid in rupee notes by the P. W. D. cashier, rather than in sterling checks from the Finance Department as in the past. This development is said particularly to rankle Crichton because it involves the Acting Chief Engineer of P. W. D., C. R. Birdwood, with whom he has never seen eye to eye. Some months ago, Birdwood induced Shaykh Fahad to grant him a five hundred pound salary increase, only to have this rejected by Crichton on the ground that it could not be provided for in the established grades. Shaykh Fahad was reportedly furious, characterizing Crichton as an obstructionist, and he apparently then decided to assume control of all contracts and salaries involving

P. W. D.

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P. W. D. employees. Birdwood subsequently received his increase much to Crichton's annoyance.

5. Crichton would normally have gone on leave in August, returned in December and then gone on terminal leave in February. Both for the convenience of the Kuwait Government and for U.K. tax purposes, he preferred to notify the Ruler of his decision now and remain until November when he will depart for good.

In discussing the foregoing with the Consulate, the Political Agent remarked that "privately" the Agency was not distressed at Crichton's prospective departure. The P. A. noted that Crichton speaks no Arabic, knows few Kuwaitis, has no special financial knowledge and has shown himself inflexible in his dealings with local officials. By contrast, Crichton's assistant, George Strover, was characterized by the P.A. as a qualified financial expert who enjoys the confidence of many Kuwaiti officials. In the past, Crichton has been responsible for internal financial operations, while Strover has looked after external matters, notably liaison with the Ruler's Investment Board in London. The P.A. expects Strover to carry on both jobs and indicated that he thought Strover might be named Controller.

Expressing sympathy with certain of Fahad's aims in his recent controversies with Crichton, the P. A. opined that the presence of British advisers on the Kuwait payroll does not necessarily strengthen the British position here. He pointed out that it would be preferable to have a dozen first-rate, Arabic-speaking Englishmen who got on well with Kuwaitis than to have 140 advisers, some of whom (not a reference to Crichton) are inefficient and interested only in retaining their lucrative, tax-free posts.

COMMENT: In an era when local governments are asserting with increasing vigor their right to control all aspects of their operations, a foreign Controller in Kuwait has been swimming against the tide. Despite the original expectation of some British officials in 1951, Crichton was never able to exert much control over Government employees and disbursements, and senior Kuwaiti officials have been progressively less willing to accept such guidance and advice. He did induce most Government departments to submit annual budgets and otherwise conform to standard administrative practices, but his contribution has been procedural rather than substantive. From this standpoint, his resignation merely confirms the existing situation.

Crichton's departure nevertheless serves as formal recognition of the fact that British advisers here no longer exercise even pro forma control over the finances of the Shaykhdom, and it is in this light that his resignation is being viewed locally. While Strover may well assume the Controller's routine duties, it may be doubted whether he will succeed to the title. The United Kingdom may retain a special position in Kuwait for many years, but the trend is for a gradual surrender of British responsibilities, and Crichton's departure is a milestone on this road.

The Controller's

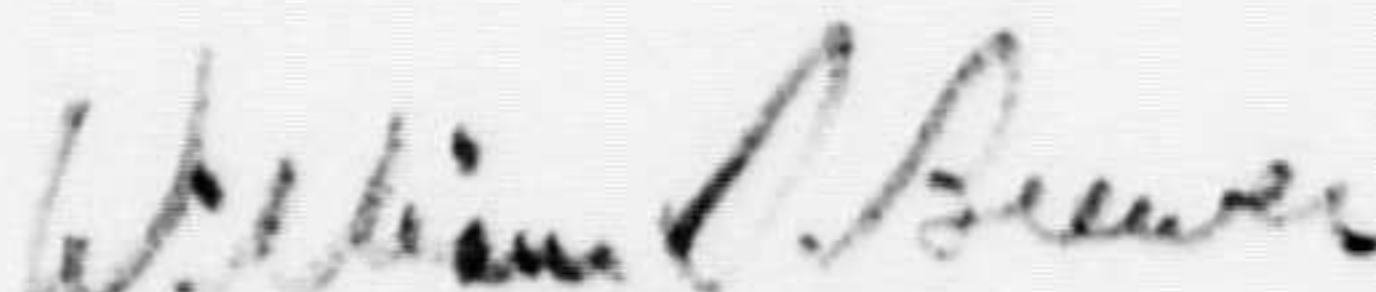
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The Controller's decision to leave before the end of his contract also points up the growing mal-administration of Kuwaiti finances and the inability of anyone other than the Ruler to redress the situation. Fahad's reported high-handed appropriation of Government funds has already provoked an adverse reaction in the town (Condes 1). Much is unlikely to come of the present dissatisfaction, but the Ruler has already acted with unaccustomed firmness to halt future unauthorized raids on the Finance Department by his relatives (see following despatch).


William D. Brewer
American Consul

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886d.10/7-1756

JS

FROM : AMERICAN CONSULATE, KUWAIT

19

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 17, 1956

DATE

REF : Condes 18, July 16, 1956

For Dept. Use Only	ACTION	DEPT.	I N F O OTHER	REP. 2 RM/R-2 OLI 6 E-5 EUR-10 TR. 3 FRB-2 CIA-7 USA-10 COA-10 LONDON-1
	NEA-4 7/24			

SUBJECT: RULER ACTS TO CURB UNAUTHORIZED SPENDING BY PARAMOUNT SHAYKHS

The "official gazette", Kuwait al-Yom, published on page one of its issue of July 14 the following special notice signed by the Ruler:

Abdullah al-Salim al-SUBAH
Kuwait

Reference SKH/1-2
July 11, 1956

To the Director of Finance:

Take notice that, with effect from now, none of the Departments is entitled to draw on the Finance Department for any amount of money other than amounts approved for its official business or the estimated budgets as approved by us. Other than that, the Finance Department is strictly forbidden to make any payment at all without a special order from us. The Finance Department is to take the necessary measures for the execution of this order as soon as it is received, together with circulating it to the Departments and publishing it in the official gazette.

Abdullah al-Salim al-Subah

According to Finance Department sources, the above ruling came as a surprise. British advisers to the Department have informed the Agency that the notice was drafted by the Assistant Director of Finance, Sayyid Ahmad al-OMAR, without the vague qualifying phrase "amounts approved for its official business" which was inserted by the secretary of the Supreme Council, Sayyid Abd al-Latif Ibrahim al-NUSIF. These advisers, who are sceptical that the regulation will ever be vigorously enforced, note that the phrase added by Nusif provides a loophole for shaykhly departmental heads who will no doubt assert that all their requests are for "official business."

COMMENT: In view of current rumors regarding official funds taken by Shaykh Fahad al-Salim to finance his global tour (Condes 1), the above ruling is widely interpreted as aimed directly at him. While this is partially true, the Consulate believes the Ruler had broader considerations in mind (Condes 18). The Consulate understands that the Director of Finance

has been

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From AmConsulate, Kuwait

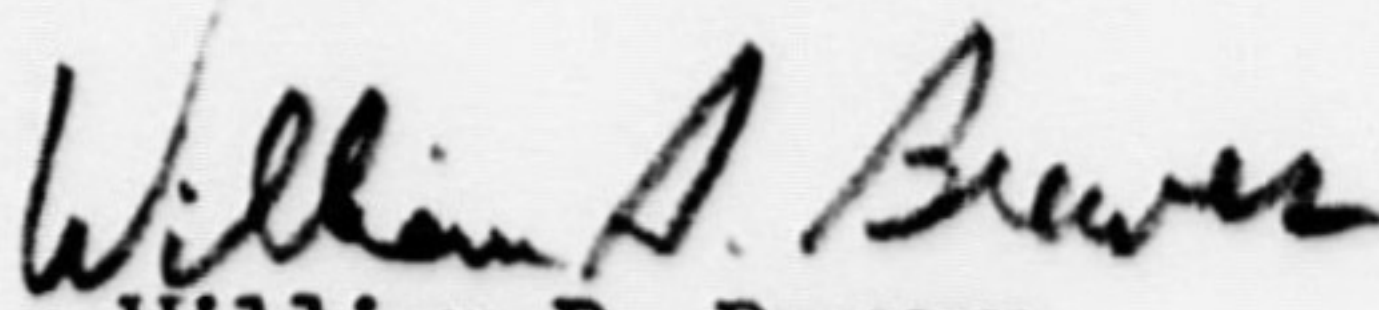
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From _____

has been concerned for several weeks over the abnormally heavy conversion of sterling into rupees required by his Department to meet demands for funds during June. This conversion reached 80,000,000 rupees (\$16,000,000) for the month, approximately double the usual monthly average and slightly more than the Shaykhdom's average monthly income from all sources if one excludes the 33% set aside for investment purposes (Condes 195, May 1, 1956). Teachers' salary advances and other special June payments account for part of the increase, but a substantial proportion probably represents special requests by members of the Subah family to finance summer holidays in Europe, the Lebanon and elsewhere. The amount actually obtained by Shaykh Fahad is unknown but he probably received at least four million rupees through the Municipality, of which he is President. The Municipality asked Finance for five million rupees early in June, some four million in excess of that department's usual request. When the Director of Finance queried the Municipality regarding the need for such an abnormally large amount, he was informed that this was none of his business. Additional pressure was applied, and the Director authorized payment of the full amount.

The concern expressed by the Director over the above developments was probably a major factor in the Ruler's action. His Highness also no doubt had in mind complaints regarding the extravagance of the Subah expressed in a recent tract (Condes 20), as well as the recent resignation of the Controller of Finance and attendant public dissatisfaction with prevailing disorder in the administration of the Shaykhdom's finances (Condes 18).

However, pressure to curb unauthorized disbursements to the departments (i.e. to the paramount shaykhs) was successful largely because the paramount shaykhs themselves are not in Kuwait. The real test of the Ruler's intentions will come when these individuals, notably Shaykh Fahad, return to Kuwait and exert pressure on His Highness to permit them continued free access to government funds. On the basis of past performance, the Consulate and other observers here do not expect the Ruler to act with the requisite firmness once this pressure from important members of his family is reasserted.


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FROM

AMERICAN CONSULATE, KUWAIT

29

DESP. NO.

TO

THE DEPARTMENT OF STATE, WASHINGTON.

July 26, 1956

DATE

REF

Condes 19, July 17, 1956

For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
67	NEA-4	RM-2, REP-2, OL-6, E-4, KA-10, E-5
8/7	CIA-6	LSA-10, COM-10, TR-3, FRB-2

SUBJECT: REGULATION DESIGNED CURB UNAUTHORIZED DISBURSEMENTS TO DEPARTMENT HEADS
ALREADY VIOLATED

Designed to curb unauthorized disbursements to department heads (i.e. SUBAH shaykhs), the Ruler's special notice of July 11 (Condes 19) has already been violated. According to a Finance Department source, the Municipality requested one million rupees (\$200,000) from Finance on approximate July 20. Armed with the Ruler's special notice, the Director of Finance, Ahmad Abd al-LATIF, signed a check for 300,000 rupees which it was estimated would cover the routine expenses of the Municipality for the month. He then informed the Municipality that, if additional funds were desired, Finance would require a detailed justification. Several days thereafter, however, the original check was returned unused, and the Director thereupon instructed his subordinates to prepare a check for the full amount, one million rupees. When asked why this was necessary, the Director reportedly explained to his subordinates that Shaykh Salim al-Ali al-Subah, nephew of Shaykh Fahad al-Salim and acting head of Public Works and the Municipality in his uncle's absence, had demanded the money.

In reply to a question, the Consulate's informant stated that the Director of Finance had made no attempt to refer this matter to the Ruler (now on vacation in Lebanon) or to hold it in abeyance until his return. When asked whether the Director had not taken the question up with the Acting Ruler, Shaykh Abdullah al-Ahmad al-Subah, the informant laughed and remarked half seriously that the Director knew better than to do that, since he might well have been beaten.

COMMENT: Although the Ruler's special directive was not expected to survive the return of the more influential and rapacious of the Subah Shaykhs (Condes 19), it is mildly surprising that the Director of Finance should yield without a struggle to a relatively minor shaykh, Salim al-Ali, only two weeks after prevailing upon His Highness to issue the ruling. The lesson is clear. Contrary to practice in former years, the Director now feels he cannot refuse the request of any shaykhly department head without the Ruler's active support. With His Highness in Lebanon and the Government operating on a stand-by basis under the autocratic hand of Abdullah al-Ahmad, a vacuum is created in Government fiscal operations which leading non-shaykhly civil servants no longer feel able to fill.

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FROM : AMERICAN CONSULATE, KUWAIT

169

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 4, 1957

REF : Condes 19, July 17, 1956

67	ACTION	DEPT
For Dept.	REC'D	IN
Use Only	2/11	OTHER
RmR-2, Rep 2, OLI-8, E-4, EUR-3, 100-10 TR-3, FRB-2, CIA-12, U.S. 1A-12, 100-10		

SUBJECT: RULER'S ATTEMPT IMPROVE ADMINISTRATION KUWAIT FINANCES MAY FORESHADOW
FURTHER "REFORMS"

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LONDON-1

The Consulate encloses for the records of the Department an unofficial translation of "Amirate Act No. 1" of January 8, 1957 concerning the administration of the Shaykhdom's finances. The main provisions of the new decree are: (a) all Government departments are enjoined to prepare careful budgets; (b) all disbursements by the departments are to be made through the Finance Department; (c) "special authorities" (jihāt al-mukhtaṣha) are to be given responsibilities for overseeing the work of the various department heads; and (d) all departmental accounting sections are to come under the jurisdiction of the Finance Department.

COMMENT: The new legislation is the latest in a series of unsuccessful attempts (Condes 19) to give the Finance Department sufficient authority to control the financial independence and excesses of certain of the shaykhly department heads. However, its timing no doubt also reflects the Ruler's belief that the Government's fiscal operations should be tightened up in the face of declining oil revenues (some 52% below expectations for 1956 with the possibility of a further 10% decline in 1957). The attempt to give the accounting section of the Finance Department some supervisory jurisdiction over all Government accounting (Article 7) is of interest in the light of the recent appointment of the secretary of the Nadi al-Kharrijin, Abd al-Wahhab MUHAMMAD, a relative of the Director of Finance (Condes 87), as a chief accountant in the Finance Department. In fact, the enclosed decree reflects a similarity of view regarding the profligacy of certain shaykhs on the part of both non-shaykhly civil servants who harbor nationalist-republican sentiments (e.g. the Director and Muhammad) and the Ruler himself.*

Several paramount shaykhs, notably Public Works President Fahad al-Salim, have been angered by publication of the new decree and allegedly have threatened to resign if it is enforced. The Port Director has in effect been told by the head of his department, Shaykh Khalid al-Abdullah, to disregard it. Since the Ruler never takes a strong line with his relatives, the decree would thus appear

likely

*It is worth noting that this is not the only common denominator between His Highness and the nationalists. The latter have noted with approval the Ruler's actions in permitting considerable opposition to the British last November (Condes 104) and now believe he is favorably disposed towards them, though ineffectual. A nationalist leader recently described HH to the writer as "a fine, patriotic Arab but, unfortunately, weak."

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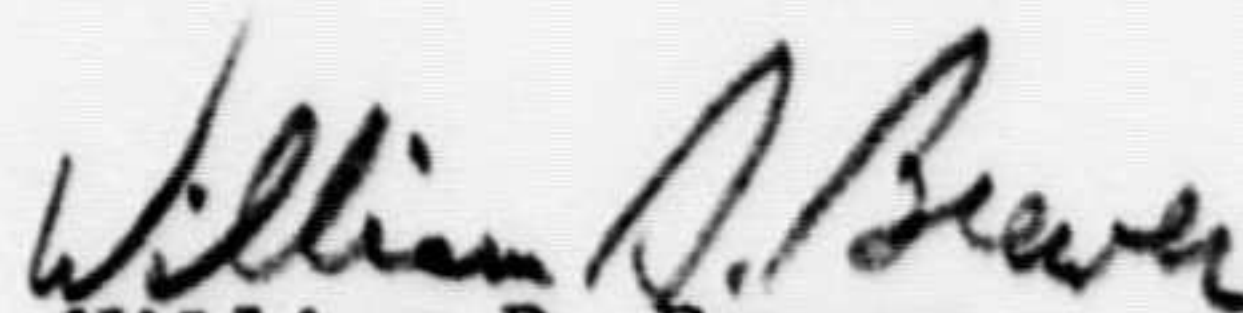
Encl. No. _____

Desp. No. 169

From AmCon, Kuwait

likely to become a dead letter like its predecessors. In fact, one long-time employee of the Finance Department described the measure as one final attempt by his harrassed and drink-prone Director to assert a measure of authority before his major responsibilities are completely absorbed by others.

No final judgement can be made, however, until the Ruler's intentions with respect to the "special authorities" referred to in Article 5 become clear. Recent discussion here (e.g. Condes 153) concerning modest political reforms such as the expansion of the Supreme Council (Majlis al-'Ala) to include non-shaykhs may be of interest in this connection. One Arab source has reported that the new majlis would have a committee for each department to which its head would be responsible (perhaps foreshadowing the "special authorities" in this new decree). Progress along this line is favored by the younger shaykhs who look to Jabir al-Ahmad but is opposed by their elders, notably Fahad. Discussions about such reforms may have been initiated in the Supreme Council in January but early results are unlikely in view of the death of Abdullah al-Ahmad (Condes 165) and the Ruler's intention to depart shortly for a month's rest in Syria and Lebanon.


William D. Brewer
American Consul

1 Encl: Act No. 1/1957

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Desp. No. _____
From _____

CONTINUATION SHEET ENCLOSED WITH ISSUE NO. 106 OF KUWAIT AL-YOM
January 13, 1957

Government of Kuwait
Finance Department

Mr. _____:

Greetings.

We enclose a copy of Amirate Act No. 1/1957 dated January 8, 1957.

Kuwait, January 9, 1957

Director of Finance

Act Number 1/1957

We, Abdullah al-Salim al-Subah, Ruler of Kuwait, have issued the following instructions to all Government Departments. The heads of all Departments and the Director of the Finance Department must take the necessary steps to enforce our act in every particular.

1. All Departments without exception should have a budget prepared very carefully and to the best proportions to the best of their ability.

2. All budgets must be seen by us for approval and after close study by us they will be enforced.

3. No Department is allowed to transfer or apply for any additional funds other than its allotted budget.

4. All disbursements from the budgets of Departments should be made through the Finance Department and with its concurrence, after detailed statements regarding these expenditures have been submitted to the Finance Department.

5. Every Head of Department is responsible for the affairs of his Department to the special authorities whose area of responsibility and specialization will be specified by an act from us.

6. All kinds of charges that are due in different Departments, including fines, should be submitted to the Finance Department directly in a form and manner to be prescribed by the Finance Department and brought before us for approval.

7. All

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7. All accounting sections of the various Departments come under the jurisdiction of the accounting section of the Finance Department, and they should be perfectly willing to answer all questions and to submit all relevant information to the latter when asked and without asking for approval.

8. All salaries, promotions and increments must be decided by the Personnel Department.* That Department is the one solely responsible for these matters; and all Departments must gain its approval beforehand for any change in any employee's grade, retirement benefits, renewal of contracts and termination, increment and anything pertaining to this question.

9. Anything concerning water and electricity should be controlled and senseless waste prohibited, since this is contrary to the country's welfare.

Signed: Abdullah al-Salim al-Subah

Seif Palace
January 8, 1957

* A sub-division of the Finance Department.

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886d.10/4-857

FROM : AMERICAN CONSULATE, KUWAIT

200

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 8, 1957

DATE

REF : CERP Kuwait and Condes 195, May 1, 1956

LONDON-1

For Dept. Use Only	ACTION	DEPT.
	REC'D	OTHER
67	NEA-4	PMR-2, OLC-8, P1, E-5, EUR-5, ICA-10
	4/17	OIA-14, Com-10, TR-3, FRB-2, XMB-3

SUBJECT: KUWAIT GOVERNMENT FISCAL OPERATIONS

SUMMARY

Unofficial estimates place Kuwait Government revenues 1956 at 105,750,000 pounds sterling, and for 1957 (projected) at 100,750,000 sterling. The most important trend in expenditures would appear to be a sharp rise in current expenses which would leave smaller amounts available for investment in the Ruler's fund in London.

The Consulate encloses estimates of the Kuwait Government's revenues for 1956, amounting to 105,750,000 pounds sterling,* and for 1957 amounting to 100,750,000 sterling; and estimates of Government expenditures during both years. The estimate of expenditures for 1956 was obtained on a confidential basis from the Political Agent, who in turn received it from a source in the Finance Department, the Ruler having again refused to authorize the release of any official figures. The estimates have been discussed with a Finance Department source but little additional information has been obtained, since foreign officials in that Department are increasingly reluctant to jeopardize their personal position by furnishing information to outsiders.

REVENUE

The Consulate estimates the total income of the Kuwait Government, excluding AMINOIL payments, at 105,750,000 pounds sterling. Although neither the Kuwait Oil Company nor the Kuwait Government release official figures, the commonly accepted estimate in Kuwait of KOC's payments to the Government in calendar 1956 is 103 million sterling. KOC payments consist of 1) royalties on current production, amounting to 12½% of the posted price, payable 30 days after each quarter year; and 2) income tax for the previous year, which is 50% of the Company's operating profit less certain deductions (royalties already paid out for the period are deducted from this 50% figure). KOC gives its estimate of its payable income tax in January; the first installment is paid on April 15; and the rest in successive installments throughout the year.

In addition

* \$298,100,000.00

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In addition to the KOC payments, the Kuwait Government receives income from its 4 1/2% ad valorem custom duty and from charges assessed by its courts and public utilities. Since the largest consumers of public utilities are members of the ruling family who do not pay, the Consulate has restricted its estimate of the net income from the latter sources to 1.5 million sterling.

AMINOIL payments amounting to \$1,900,000 during 1956 were deposited to the account of the Ruler in New York and therefore do not figure in the local budget.

According to a Finance Department source, the latest estimate given to the Ruler of payments to be made by KOC during 1957 is 98,000,000 pounds. This figure reflects the drop in production caused by the closing of the Suez Canal. It is assumed that Government receipts from customs, public utilities, and other Government services will be approximately the same in 1957 as for 1956.

1956 EXPENDITURES

In the past the Kuwait Government's budget has been predicated on the fact that one-third of its revenue would go into capital development projects, one-third into current expenses and maintenance, and one-third into the Ruler's investment fund in London. In 1956 the amount of money put into original development projects was considerably less than one-third, but the money consumed by current expenses, particularly maintenance of the elaborate installations already completed, amounted to much more than one-third of the budget, and seems to have exceeded all expectations. If the curve of current expenses continues to rise at its present rate, and KOC revenues and Kuwait Government capital expenditures continue at approximately the same rate, the amount available for investment in the fund in London will, according to a Finance Department source, decrease sharply. Since the sum already invested in London is substantial, such a prospective decrease in new investment funds may be a matter of greater concern to the London securities market than to Kuwait.

The Political Agency's estimate of Kuwait Government expenses in 1956 is 62,250,000 pounds sterling which might leave some 43,500,000 pounds out of an estimated total income of 105,750,000 pounds available for investment in London. However, the Consulate regards the Agency's figures on expenditures as probably too low. Three items in particular which may have been underestimated are expenditures by the Ruler and his family, the Electricity Department, and the Public Works Department, the main implementing agency for the Development Program.

In any case, the enclosed statement should not be taken to mean that the sums listed were actually spent for the purposes indicated. The shaykhly heads of the various Departments appropriate funds, from the departmental budgets at will, and certain departments, e.g. Public Security, have no formal disbursing procedures whatsoever.

1957 BUDGET

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1957 BUDGET

Government departments are supposed to submit budget estimates for the succeeding year by October 1 so that these can be approved by the Ruler by January 1. In fact the departments do not prepare their estimates until January, and the Government operates on a "continuing basis" for the first three months of the year before the budget, such as it is, is approved by His Highness.

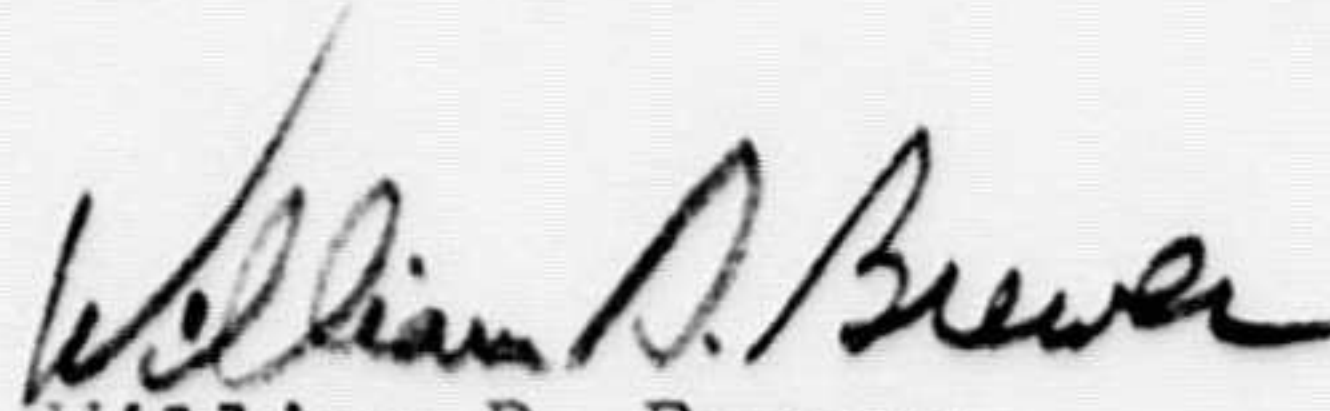
According to the Consulate's sources, the Government is planning to spend its estimated 100,000,000 pounds revenue for 1957 as follows:

1 million	Ruler and family
25 million	Public Works Department
12 million	Land acquisition
10 million	Education
10 million	Net loss on operating public utilities (e.g. port, aviation, post & telegraph, electricity, water)
7 million	Health
7 million	Public Security
5 million	Municipality

This total of 77 million would leave only 23 million pounds available for the Ruler's investment fund in London.

Of the 77 million expended, a Finance Department source indicated that development projects would again receive approximately one-third of the budget, or 33 million, and the rest would be spent on current expenses. Since the Government no longer differentiates in its budget between capital or development projects and current expenditures, it is difficult to separate the two items.

Expenditures for Government purchase of private land here for development purposes threatened to get out of hand during 1956, and the Ruler has accordingly fixed a maximum of one million pounds sterling per month in future for such expenditures.


William D. Brewer
American Consul

1 Encl: List of Govt Expenditures, 1956

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ESTIMATE APPROXIMATE EXPENDITURES BY KUWAIT GOVERNMENT IN 1956

	Pounds <u>£ 000</u>	Rupees* <u>Rs 000</u>
The Ruler and Family	1,000	13,333
Finance Department	750	10,000
Law Courts	150	2,000
Customs Department	300	4,000
Police Department	1,500	20,000
Port Department	2,250	30,000
Education Department	7,300	97,333
Health Department	4,400	58,666
Municipality	2,700	36,000
Social Affairs Department	400	5,333
Printing and Publications Department	225	3,000
Electricity Department	3,000	40,000
Distillation Plant	300	4,000
Water Supply Department	75	1,000
Administration and Housing Department	500	6,666
Land Registry	75	1,000
Public Works Department	14,900	198,666
Public Security Department	4,875	65,000
Awqaf Department	375	5,000
Telegraph and Telephone Department	375	5,000
Civil Aviation Department	75	1,000
Dasman Garage	150	2,000
Miscellaneous	75	1,000
Land Purchase	12,500	166,666
Development Expenditure paid as such by Finance Department	2,000	26,666
Increase on deposits outstanding on letter of credit	2,000	26,666
TOTAL	62,250	830,000

* Converted from pounds sterling at the rate of
1 pound = 13.333 rupees or 13/5/4 rupees

ESTIMATE KUWAIT GOVERNMENT RECEIPTS IN 1956

Kuwait Oil Company Income Tax and Royalties	£ 103,000,000
Local Revenues: Customs	£ 1,250,000
Others	£ 1,500,000
TOTAL	£ 105,750,000

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Central File: Decimal File 886D.10, Internal Economic, Industrial And Social Affairs., Kuwait, Financial Matters. (General)., March 13, 1955 - December 20, 1959. March 13, 1955 - December 20, 1959. MS Persian Gulf States and Yemen, 1950-1959: Record Group 59: General Records of the Department of State, Central Classified Files, Kuwait (86D), Muscat and Oman (86E), Qatar (86F), the Trucial Sheikhs (86G), and Yemen (86H). Internal Political, National Defense, Economic, Industrial, Social, and Ot. National Archives (United States). Archives Unbound, link.gale.com/apps/doc/SC5108520393/GDSC?u=uagm&sid=GDSC&xid=1eb76161&pg=25. Accessed 4 May 2021.